

Message Text

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ACTION EUR-12

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AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

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AMCONSUL ZURICH UNN

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DEPARTMENT PASS TREASURY AND FRB

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SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF JULY 6-12

1. SUMMARY: THE SUMMER HOLIDAY SEASON HAS BEGUN IN SWITZERLAND AND THERE HAS BEEN A SIGNIFICANT SLOWING OF ACTIVITY IN THE SWISS FINANCIAL MARKETS. THE DOLLAR, GOLD, AND STOCK PRICES ALL WENT UP THIS WEEK WHILE THE DECLINE OF INTEREST RATES SEEMS TO BE LEVELING OFF. THE GOVERNMENT'S MOST RECENT ECONOMIC FORECAST CALLS FOR A 3.5 PERCENT DROP IN REAL GNP IN 1975 AND A 0-1 PERCENT DECLINE IN 1976. A NEW LAW ON FOREIGN WORK PERMITS IS DESIGNED TO REDUCE THE

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TOTAL NUMBER OF FOREIGNERS RESIDENT IN SWITZERLAND.

IN THE FIRST QUARTER OF THIS YEAR WAGES ROSE AT A SLOWER RATE THAN LAST YEAR BUT ARE STILL OUTPACING INFLATION

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: EXCEPT FOR SOME NERVOUSNESS WHEN THE FRENCH FRANC REENTERED THE EUROPEAN SNAKE ON JULY 10, THE FOREIGN EXCHANGE MARKET WAS QUIET WITH LOW TURNOVER; THE SPOT DOLLAR CONTINUED TO STRENGTHEN UNDER THE INFLUENCE OF HIGHER US INTEREST RATES. GOS AND SNB OFFICIALS ARE STILL STUDYING THE QUESTION OF SWISS ASSOCIATION WITH THE SNAKE. GOLD TRADING WAS ACTIVE AND PRICES FLUCTUATED UPWARD. RATES AS FOLLOWS:

	7/7 (OPEN)	7/11 (CLOSE)
SPOT DOLLAR	SF 2.5485	SF 2.5725
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTH	- 3.4	-3.4
3 MONTHS	-2.9	-3.1
6 MONTHS	-2.4	-2.8
GOLD	\$163.50	\$165.00

3. MONEY AND CAPITAL MARKETS: CALL MONEY RATE WAS 1.0 PERCENT ALL WEEK. TURNOVER IN THE STOCK MARKETS WAS LOW; THE SKA INDEX OF AVERAGE PRICES ROSE FROM 183.7 (END 1959 - 100) ON JULY 4 TO 186.9 ON JULY 14. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS WAS 6.48 PERCENT ON JULY 14, VIRTUALLY UNCHANGED FROM 6.47 PERCENT ON THE PREVIOUS FRIDAY.

4. SDR BANK ACCOUNT: BANQUE KEYSER ULLMANN EN SUISSE SA, THE GENEVA SUBSIDIARY OF DEYSER ULLMANN, ANNOUNCED THIS WEEK THAT IT WILL ACCEPT CURRENT ACCOUNTS AND TIME DEPOSITS DENOMINATED IN SDRS. THE BANK HOPES TO CREATE A MARKET IN SKRS IN ORDER TO PROVIDE SOME PROTECTION AGAINST CURRENCY FLUCTUATIONS. MINIMUM DEPOSIT IS SDR 30,000, WITH INTEREST RATES OF 6.5 PERCENT FOR THREE-MONTH TIME DEPOSITS AND 4.0 PERCENT FOR CURRENT ACCOUNTS.

ECONOMIC

5. ECONOMIC FORECAST: THE GOVERNMENT'S ECONOMIC RESEARCH COMMISSION NOW ESTIMATES A REAL DECLINE OF 3.5 PERCENT UNCLASSIFIED

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IN GNP FOR 1975. OVER THE COURSE OF THIS YEAR, THE COMMISSION EXPECTS A 10 PERCENT FALL IN THE VOLUME OF EXPORTS, A 3 PERCENT DROP IN EMPLOYMENT, AND A 5-6 PERCENT REDUCTION IN AGGREGATE DEMAND. AS A RESULT OF THESE RECESSIONARY TRENDS, INFLATIONARY PRESSURES SHOULD EASE SOMEWHAT AND THE INCREASE IN CONSUMER PRICES DURING 1975 IS EXPECTED TO BE APPROXIMATELY 7 PERCENT, COMPARED WITH 10 PERCENT LAST YEAR. THE BALANCE OF

PAYMENTS ON CURRENT ACCOUNT, WHICH REGISTERED AN ESTIMATED SF 760 MILLION (DOLLARS 304 MILLION) SURPLUS IN 1974, IS EXPECTED TO SHOW A CONSIDERABLY LARGER SURPLUS IN 1975. FOR 1976, THE COMMISSION FORESEES A 0-1 PERCENT DECLINE IN REAL GNP, A STABILIZATION OF EMPLOYMENT, A FURTHER SLOWING OF THE RATE OF INFLATION, AND ANOTHER LARGE CURRENT ACCOUNT SURPLUS.

6. FOREIGN WORKER PERMITS: ON JULY 9, THE FEDERAL COUNCIL APPROVED A NEW DECREE ON THE ISSUANCE OF WORK PERMITS TO FOREIGNERS. THIS IS THE FOURTH AND MOST RESTRICTIVE DECREE ON THIS SUBJECT SINCE 1971 AND IS SOMEWHAT DIFFERENT FROM THE ORIGINAL DRAFT CIRCULATED AMONG THE CANTONS LAST MAY (ITEM 6, BERN A-104). THE OBJECTIVE OF THE NEW LAW IS TO FURTHER REDUCE THE TOTAL FOREIGN POPULATION (SEE NEXT ITEM). TO ACHIEVE THIS GOAL, THE NEW DECREE DOES NOT PROVIDE FOR ANY NEW ANNUAL WORK PERMITS FOR THE 12-MONTH PERIOD BEGINNING AUGUST 1, 1975. RATHER, THE CANTONS, WHICH USED ONLY ABOUT ONE-THIRD OF THE 1974/75 ALLOCATION OF 18,000 PERMITS DUE TO THE RECESSION, WILL BE AUTHORIZED TO ISSUE A MAXIMUM OF ONE-THIRD OF THE 74/75 ALLOCATION (I.E., 6,000 COUNTRY WIDE). THE FEDERAL AUTHORITIES WILL HAVE AN ADDITIONAL QUOTA OF 2,000. THE NUMBER OF SEASONAL PERMITS WILL BE REDUCED FROM 192,000 TO 145,000 DURING THE PERIOD OCTOBER 1, 1975, TO SEPTEMBER 30, 1976, OF WHICH 11,000 WILL BE ISSUED AT THE FEDERAL LEVEL. THIS SHOULD BE SUFFICIENT TO MEET THE DEMAND FOR LABOR IN THE DEPRESSED CONSTRUCTION AND TOURIST INDUSTRIES. A NEW CATEGORY OF TEMPORARY RESIDENTS FOR TRAINING PURPOSES (MAXIMUM STAY ON ONE YEAR WITHOUT FAMILY) ALLOWS FOR A QUOTA OF 1,500 PERMITS FOR ISSUANCE BY THE CANTONS AND 3,500 BY THE FEDERAL AUTHORITIES. A NEW FEATURE OF THIS DECREE IS A UNCLASSIFIED

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PROVISION ALLOWING THE FEDERAL GOVERNMENT TO HALT THE ISSUANCE OF WORK PERMITS IF THE ECONOMIC AND UNEMPLOYMENT SITUATION DETERIORATES. DETAILS FOLLOW BY AIRGRAM.

7. FOREIGN POPULATION: AS A RESULT OF GOVERNMENT RESTRICTIONS AND THE ECONOMIC RECESSION, THE NUMBER OF FOREIGNERS LIVING IN SWITZERLAND HAS DECLINED FOR THE FIRST TIME IN 12 YEARS. IN THE 12-MONTH PERIOD WHICH ENDED APRIL 30, 1975, THE NUMBER OF FOREIGN WORKERS FELL BY 67,992 OR 8.2 PERCENT. THE MAJOR PORTION OF THIS DECLINE WAS IN SEASONAL WORKERS WHERE THE DROP AMOUNTED TO 54,848, OR 45.2 PERCENT. THE TOTAL RESIDENT FOREIGN POPULATION, WHICH INCLUDES WORKERS AND THEIR FAMILIES, STUDENTS, RETIREES, AND DIPLOMATES, FELL 4,830 IN THE FIRST FOUR MONTHS

OF THIS YEAR.

8. WAGES: WHILE RECESSION AND GROWING UNEMPLOYMENT ARE SLOWING WAGE GAINS, WAGES CONTINUED TO OUTPACE INFLATION IN THE FIRST QUARTER OF 1975. COMPARED WITH THE FIRST THREE MONTHS OF 1974, WAGES IN MANUFACTURING AND CONSTRUCTION ROSE 8.4 PERCENT IN THE FIRST QUARTER OF THIS YEAR AND CONSUMER PRICES ROSE 8.0 PERCENT OVER THE SAME PERIOD. A YEAR EARLIER, WAGES WERE INCREASING AT AN ANNUAL RATE OF 10.1 PERCENT.
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